

5. Study the extract below and answer the questions that follow.

Deflating the case for bicycle tariffs

- ❶ Two Canadian bicycle manufacturers, Raleigh and Groupe Procycle, have started a campaign to increase tariffs on the import of foreign bicycles. As a result, the Canadian International Trade Tribunal (CITT) recommended last month that the federal government impose an “emergency” 30 per cent tariff on the import of foreign bicycles, to prevent the death of what is left of Canada’s bicycle manufacturing industry.
- ❷ The two factories, where the bicycles are built, are located in the Canadian province of Quebec and provide **wages** for approximately 600 workers. With an election in the near future, the federal government is keen to try to maintain popular support in the region. So there is considerable political pressure on the government to increase the tariff.
- ❸ The Canadian bicycle manufacturing industry is really an assembly industry – the parts are shipped in from China and elsewhere. The industry is already heavily protected by tariffs and **anti-dumping** measures. Nonetheless, Raleigh and Procycle can’t compete against the Chinese. In the past four years, the Canadian-made share of the domestic bicycle market has declined from 58 per cent to 30 per cent. The Chinese (and the Thais, Filipinos and Vietnamese) are now dominating the market.
- ❹ If the government were to increase the tariff, then the price of imported low-priced bicycles would increase sharply. Yet this is at the very time that governments are encouraging bicycle use as a cheap, healthy and environmentally friendly alternative to cars.
- ❺ There is also a concern that other Canadian manufacturers, who are also seeking more tariff protection, would demand the same protection as bicycle manufacturers.
- ❻ In addition, the Chinese may wonder about a country that claims it wants to expand trade with China, and then raises tariffs on one of China’s major exports.
- ❼ Senior government officials have been ordered to find alternatives, such as retraining for workers, which would help the domestic industry without penalizing imports.
- ❽ Interestingly, Canadian firms are respected internationally as designers and manufacturers of high-priced performance bicycles. The manufacturers of these “high-end” bicycles are not demanding increased tariff protection. Perhaps the message should be that successful firms don’t need tariffs and unsuccessful ones don’t deserve them.

[Source: adapted from John Ibbitson, *The Globe and Mail*, 4 October 2005]

(This question continues on the following page)

(Question 5 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) wages (*paragraph 2*) *[2 marks]*
 - (ii) anti-dumping (*paragraph 3*). *[2 marks]*
- (b) With the help of an appropriate diagram, show how the proposed tariff would affect the price and level of bicycle imports. *[4 marks]*
- (c) Describe the nature of the cross elasticity of demand between cars and bicycles suggested in paragraph 4. *[4 marks]*
- (d) Using information from the text and your knowledge of economics, evaluate the use of protectionism in the Canadian bicycle industry. *[8 marks]*
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